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SUBJECT: Foreign Trade Undersecretary on WTO
Negotiations, Regional and Bilateral Trade Issues

SENSITIVE BUT UNCLASSIFIED - PROTECT ACCORDINGLY

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Summary

1. (SBU) Foreign Trade Undersecretary Tuncer Kayalar and Department Head Hasan Yalcin told us on January 30 that they found USTR Zoellick's letter on the WTO negotiations to be very encouraging, particularly on ending export subsidies in agriculture. Kayalar reviewed GOT efforts to conclude a series of trade agreements in the region and elsewhere, in part to align Turkish trade policy with that of the EU. He also contended that continued high Syrian tariffs are blocking use of the railways to trade fuels with Iraq and to relieve congestion at the Habur Gate. Kayalar maintained that a Turkey QIZ would have no benefit for Turkey unless textiles and other sensitive sectors were included in its scope. He expressed some concern that the strong lira was beginning to hurt Turkish exports. We urged Kayalar to support rapid implementation of data exclusivity protection for pharmaceuticals. End Summary.

WTO Negotiations

2. (U) In a January 30 meeting with Econ Counselor and Econoff, Foreign Trade Undersecretary Kayalar and Multilateral Affairs Department Head Hasan Yalcin said they were encouraged by USTR Zoellick's letter (ref A) on moving the WTO negotiations forward in 2004. Yalcin told us that Turkey views very positively the proposal for a definite end date for export subsidies and an end to the subsidy component of export credits in agriculture. He added that, although many developing countries had reacted positively to the letter, the EU's position on export subsidies would be key. Yalcin told us that State Minister Tuzmen planned to send a written response to the letter in the near future.

Liberalizing Trade in Line with the Customs Union

2. (SBU) Kayalar said that Turkey is actively pursuing trade liberalization with a number of countries in the region, within the framework of aligning its trade arrangements with the EU under the customs union. A free trade agreement with Morocco was to have been signed in late January, but the signing will be postponed until the visit of the Moroccan Prime Minister; the timing of this visit has not been finalized. Kayalar said he expected FTAs with Tunisia and "Palestine" to be completed after the Moroccan FTA signing. Turkey continues to negotiate with Jordan on a possible FTA. Outside the region, Turkey is also keen to negotiate an FTA with Mexico, which Kayalar characterized as closed to Turkish exports following the EU - Mexico FTA.

3. (SBU) Kayalar told us that Turkey is pressing Brussels to intercede with its FTA partners on the need to negotiate with Turkey. Turkey would prefer that the

EU and Turkey negotiate new FTAs with third parties in parallel, or that future EU FTAs include a clause requiring that the third party negotiate an FTA with Turkey. Note: In adopting Europe's common external tariff under the customs union, Turkey made steep, unilateral cuts in tariffs on third country products, including on those from the EU's FTA partners. Those partners will thus realize relatively small gains in Turkish market access under an FTA with Turkey, but will have to give up relatively high levels of protection against Turkish imports. This, the Turks have long said, creates an incentive for those countries to drag out FTA negotiations and diverts trade. End Note.

Neighboring Countries

14. (SBU) Kayalar said Turkey is keen to liberalize trade in border regions with Syria and Iran. He predicted that Turkey and Iran would soon come to agreement on a border trade scheme, and said the Syrians were considering a similar arrangement. To relieve congestion at the Habur border crossing, the GOT would like to trade fuels with Iraq by rail through Syria. However, the rail link is not being used due to continued Syrian insistence on high transit fees (ref B).

Textiles and the QIZ

15. (SBU) The Undersecretary told us that he had not as yet received a readout on the Prime Minister's Washington meetings and was not sure whether Qualifying Industrial Zones (QIZs) had been raised. He acknowledged that MFA took the position that Turkey should pursue a QIZ excluding textiles and other import-sensitive goods. However, Kayalar maintained that only the Turkish apparel industry could benefit from the QIZ, largely because U.S. tariffs outside that sector were very low or nonexistent. He did say that one Turkish fish processing company had expressed interest in a QIZ, but this did not appear to be feasible unless the QIZ could consist of a single factory.

16. (U) Kayalar remarked that Turkey's apparel manufacturers were investing abroad. He noted that he had visited Uzbekistan earlier in January, and that that country has garnered about USD 300 million in Turkish investment, including a factory exporting to Fruit of the Loom.

Data Exclusivity

17. (SBU) EconCouns raised Assistant USTR Novelli's letter to Kayalar urging implementation of data exclusivity protection for pharmaceuticals. Kayalar stated that the GOT was considering delayed implementation (at the end of 2007). EconCouns replied that this would be perceived negatively in Washington, and could result in Turkey's elevation in the Watch List system in the 2004 Special 301 cycle. Kayalar said he would represent the USG position to others in the GOT, but added that no action was likely before the municipal elections in March 2004.

Turkey's Trade Deficit

18. (SBU) Kayalar told us he was pleased with Turkish exporters' record sales in 2003, but that the strong lira was beginning to put a dent in future orders. He characterized the level of imports, at some USD 8.5 billion in December, as alarming. While acknowledging the central bank's dedication to cutting inflation through a strong lira, Kayalar opined that Turkish exports could not continue to compete globally at current exchange rates.
Edelman